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ANNUAL REPORT

YEAR ENDED DECEMBER 31, 1945

NATIONAL
BISCUIT
COMPANY



NATIONAL BISCUIT COMPANY

449 West Fourteenth Street, New York

To the Stockholders:

Following is a report of the financial condition of National Biscuit Company and subsidiaries as of December 31, 1945, a statement of earnings, and comments on the activities of the Company during the past year—its forty-eighth year of operation.

EARNINGS

Earnings in 1945 before Loss on disposal of Fixed Assets and Taxes on income were \$29,078,859 compared with \$29,368,447 in 1944, the highest in the history of the Company.

Net earnings for the year 1945 were \$10,508,448 compared with \$10,478,851 in 1944. After provision for dividends on the preferred stock, this is equal to \$1.39 per share on the common stock. Net earnings in 1944 were likewise \$1.39 per common share. In relation to sales, the net earnings for 1945 were slightly higher than for 1944.

SALES

Net sales after deduction of trade and cash discounts, returns and allowances were \$204,995,178 compared with \$205,273,205 in 1944. Government contracts cancelled after V-J day accounted for more than the difference. Sales to civilian customers reached a new high in dollars and tonnage despite the fact that we were unable to supply the demand for our products because of raw material shortages.

Sales of our products remained under O.P.A. ceiling price restrictions in the face of continued high costs of material and labor. This has tended to narrow profit margin over the past several years.

We continued, during the year, to apportion available merchandise to all customers based on their historical records of purchases. We are confident that this policy has made the problems

of our customers somewhat easier during a difficult period.

Other lines than biscuit and crackers likewise showed substantial increases during the year. These include cereals, pretzels, bread and soft cake, baked specialties, ice cream cones and dog biscuit.

TAXES

Federal and foreign income tax provisions in 1945 were \$16,443,656, of which \$9,965,000 were Federal Excess Profits Tax. Total taxes in 1945 were \$20,799,958, equivalent to \$3.31 per share of common stock, or ten cents on each dollar of sales.

Both in this country and in Canada the laws provide for the filing of claims for refund of excess profits taxes where for one reason or another the base on which the tax is computed is improper or inequitable. Such claims have been filed in both countries and in Canada relief has been granted resulting in an aggregate increase in net earnings of \$294,000.00 for the years 1940 through 1944. The advantage of the adjusted base will continue as long as there are excess profits taxes

in Canada. No action has been taken on the claim filed in this country.

SUBSIDIARIES

The Company owns four operating subsidiaries, three in Canada and one in England. Operations in Canada were maintained throughout the year without serious interruption. The Canadian companies, Christie, Brown and Company, Limited, Christie's Bread, Limited, and The Canadian Shredded Wheat Company, Limited, all showed satisfactory increases in sales over the previous year. The English company, The Shredded Wheat Company, Limited, operated under severe handicaps, chief among which were manpower and "zoning" regulations. The latter is unlike anything experienced in this country. The government allotted each cereal manufacturer certain territory and required him to keep within it. The purpose was to conserve fuel and equipment. This, of course, seriously affected sales. However, toward the close of the year there was evidence of improvement and, if the zoning restrictions are lifted in 1946, the English company should show ma-

terially better results. Foreign subsidiaries account for 13% of the Company's net earnings in 1945.

For comparative purposes, we continue to include the earnings from operations of our foreign subsidiaries at \$4.85 to the pound sterling and at \$1.00 to the Canadian dollar, but reduce them to the current rates through the Foreign Exchange Adjustment Account, so that the net results are finally included in the Consolidated Income Statement in equivalent U. S. Dollars.

Foreign investments of the Company located in Canada and England are included in the Consolidated Balance Sheet and at the close of the year amounted to \$6,097,000. The fiscal authorities in Canada and England permit the Company to withdraw cash funds from those countries in amounts substantially equivalent to current earnings of the subsidiaries.

GOVERNMENT CONTRACTS

Shortly after the war ended in August, all Government contracts for emergency ration biscuits and other products were cancelled. From the day of our entry into the war until its successful

conclusion we delivered more than \$90,000,000 of products to the armed forces. This included some 177,000,000 pounds of emergency ration biscuits, a large proportion of the total amount consumed.

We are receiving prompt settlement from the Government on terminated contracts and no loss is anticipated as a result.

Profits arising from Government contracts for the year 1944 have been examined by the Price Adjustment Board of the War Department and we have agreed to an adjustment of \$192,019.00. Credit for taxes paid reduced the refund to \$26,005.14 which is reflected in the income statement for 1945.

It is anticipated that renegotiation of 1945 contracts will likewise result in an adjustment for which provision has already been made in the income account. It is felt, therefore, that final settlement will have no material effect on the net earnings herein reported.

PURCHASE COMMITMENTS

The nature of our business is such that inventories, both of raw materials

and finished products, can little exceed current needs, and the Company does not enter into future commitments at any time in such amount as to affect its financial position materially.

POST-WAR TAX REFUNDS

The U. S. Tax Adjustment Act of 1945 provides for accelerated payment of the Post-War Refund of Excess Profits Taxes. Therefore, the amounts due for the years 1942 and 1943 amounting to \$1,381,443.26 and represented by bonds payable on Jan. 1, 1946 have been transferred to our U. S. Bonds Account. The amount applying to 1944 has been deducted from tax payments for that year made in 1945, while the amount applying to 1945 has been credited to the tax provision made for that year. The amount remaining in the account applies only to Canada, in which country yearly refunds begin on March 31, 1948.

LOSS ON DISPOSAL OF FIXED ASSETS

This loss arose from our program, followed during the year, of disposing of those properties no longer necessary to the operation of the business. The principal items were a square block in New

York City between 16th and 17th Streets, 9th and 10th Avenues and a large plot in Cambridge, Massachusetts. The New York City property had been purchased many years ago for possible expansion of the New York plant. Development of the band oven within the last few years has brought about a different type of plant on a larger plot of land and the times suggest the wisdom of decentralization of operations. We sold the property to a food merchant whose occupation will not be detrimental to our food manufacturing operations. The Cambridge land was likewise purchased with the intention of building a plant and the project was ultimately abandoned for the same reasons as in the case of the New York plot. Other properties in Pittsburgh, Kansas City, Des Moines and Minneapolis were also disposed of.

POST-WAR CONTINGENT RESERVE

The amount of excess profits taxes refundable after the war was originally credited to this reserve account as a conservative measure and to provide for any unforeseen contingencies which might arise out of the war. Since the

war has been successfully concluded and the reserve has not been needed it has been transferred to Earned Surplus.

EMPLOYEES AND THEIR SERVICE RECORD

We are proud of the war record of our employees. The employees of our New York Bakeries were four times awarded the Army-Navy Production Award—the “E” flag with three white stars—the last one awarded in 1945. This was for high achievement in the production of biscuits and crackers, particularly Emergency Ration Biscuits, for the Army and Navy.

During the shortage of waste paper, a critical war material, our salesmen throughout the country took leading roles in the organization of community salvage drives and campaigns. High officials of the War Production Board have complimented your Company and praised as outstanding its efforts in the paper salvage program. These efforts were a major factor in keeping in operation, not only our own plants, but those of other manufacturers to whom packing and wrapping materials were essential.

In the year 1945 we produced and

delivered a record output to civilian customers. We delivered it in old equipment and under severe mileage restrictions imposed for the conservation of fuel and rubber. We did it without any serious interruption in production.

These accomplishments were made possible by the loyalty, cooperation and fine spirit of our more than 28,000 employees.

Of course, the most important contribution to the war effort was made by 7,340 employees in the armed services, of whom 151 gave their lives. One thousand and sixty-one have returned to our employ at the date of this writing. This represents about 85% of those released. The others have entered new fields, probably to better utilize talents or skills acquired in the military service. To all of them we extend best wishes and to those who return to us a sincere welcome.

PLANT AND EQUIPMENT CHANGES

During the past several years little has been possible in the way of modernization of plant and equipment. However, in 1945 we replaced two old-style ovens in our Lexington Street Bakery

in Chicago and installed an additional automatic Shredded Wheat oven in our Canadian plant at Niagara Falls, Ontario.

Plans are being completed for a new bakery in Toronto, another in Houston and another in the Pacific Northwest. These will be erected and equipped as soon as manpower and materials are available. While these plants are being planned primarily to replace bakeries which have become obsolete, they will also increase our capacity in these rapidly growing areas.

We have plans for a pretzel bakery in our New York plant, an automatic soft cake bakery in our East Liberty, Pa. plant, an additional automatic Shredded Wheat oven in our Oakland, California bakery, an additional Triscuit unit in our Niagara Falls, New York bakery, and also to convert several old style Shredded Wheat ovens at our Niagara Falls, New York bakery to the automatic type.

We hope that by the end of the next year we shall be able to report substantial progress on all of these projects.

During the war years we were able to do very little in the way of normal replacement of worn delivery equipment.

However, we were able to keep the old equipment running, although at some disadvantage from the standpoint of appearance and cost of operation. As quickly as conditions permit, old trucks will be replaced and our delivery fleet restored to the high level of appearance and efficiency of normal years.

PENSION PLAN

For forty-five years it has been the practice of your Company to grant pensions to employees upon retirement. This has been commented upon in previous Annual Reports. We are one of the few large corporations in this country which has not yet adopted a formal pension plan. Today, those best informed on the subject believe that a formal pension plan providing for the timely retirement of superannuated employees is essential to the preservation of the vigor of an organization. It is believed that the terms of the plan should be fixed and known to the employees and its application should be uniform. This can be accomplished only by the adoption of a formal plan. Your directors, concurring in these beliefs, have given careful consideration to this

matter and are proposing for your approval a plan which seems best adapted to the needs of our business. The details of this proposal appear in your proxy statement.

ORGANIZATION CHANGES

We report with deep regret the death during the year of Mr. Howard M. Hanna, a member of the Board of Directors of our Company since February 9, 1917, when he succeeded to the position on the Board held by his father who had been a member since February 10, 1906.

During the year Mr. Roy E. Tomlinson assumed the chairmanship of the Board of Directors. A number of the senior officers asked to be relieved of executive responsibilities. With the cessation of hostilities and the approach of a post-war period with new and different problems, this seemed a logical time to turn over the management to younger men with many active years before them.

On May 21, 1945 Mr. Dudley W. Figgis, President of American Can Company, became a member of our Board of Directors.

THE FUTURE

Our Company has no reconversion problem. Our war production was of bakery products requiring no special types of equipment.

The situation with respect to raw materials has eased in the past few months, except as to sugar. Substantial relief in that quarter may not come for a year, and as a consequence our production of sweet goods may continue to be restricted for some time.

The prospects for a continuance of good volume in the immediate future appear bright. There is substantial purchasing power in the country and people want quality merchandise.

Continuance of O.P.A. ceiling prices, in the face of advancing labor and material costs and the doubt regarding the future of the flour subsidy from which we have benefitted since December 1943 produce an element of uncertainty. However, it is reasonable to hope for an early return to normal competitive conditions.

GEORGE H. COPPERS, *President.*



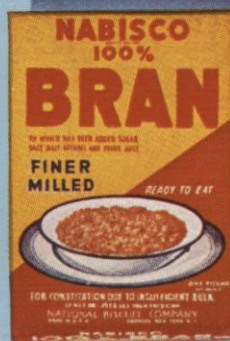
TO MILLIONS of homemakers, the familiar red NABISCO seal stands as a trusted trademark of fine quality baked goods. It is a symbol of purity, freshness and flavor for all products on which it appears, signifying the finest of ingredients, the most skillful baking and a reliable system of speedy delivery which insures bakery-goodness. Wherever it is displayed, this seal is a buying guide to the best. Illustrated on the following pages are a number of the more familiar products which carry the red NABISCO seal. Many of the varieties shown are also packaged in cellophane bags, allowing actual display of the attractive goods within, and enhancing appetite-appeal.

CRACKERS & COOKIES





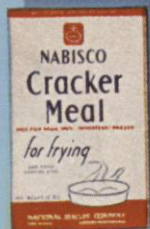
CEREALS



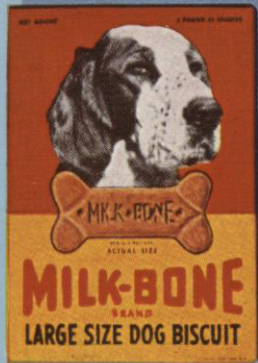
*available only in certain territories

SPECIALTIES

*BREAD & CAKE



FOR DOGS



CONSOLIDATED

ASSETS

	December 31, 1945	December 31, 1944
Cash	\$15,424,266.81	\$18,513,701.52
U. S. Bonds (Quoted Market 12-31-45 \$30,828,356.80)	30,774,443.26	21,553,000.00
Other Bonds (Quoted Market 12-31-45 \$1,196,673.88) Note: \$606,500.00 Principal Amount U. S. and Other Bonds deposited for special reasons.	1,183,291.25	989,041.26
Accounts Receivable	4,722,992.31	6,131,053.68
Raw Materials, Supplies and Finished Product (At Cost or Market, whichever is lower, less Special Inventory Reserve of \$1,019,381.51 charged to prior earnings.)	26,032,981.38	24,936,752.99
Total Current Assets	78,137,975.01	72,123,549.45
Notes and Mortgages Receivable	154,644.86	119,858.49
Post-War Refund of Excess Profits Taxes	395,777.19	3,181,326.18
Plants, Real Estate, Machinery and Equipment (At Cost, Less Allowances for Depreciation of \$41,748,576.43 at December 31, 1945.)	52,563,332.98	57,933,387.49
Prepaid Expenses and Deferred Charges	1,206,876.25	835,315.41
Total	\$132,458,606.29	\$134,193,437.02

NOTE: See comments in President's report regarding
 (a) the Company's investments in and earnings of Subsidiaries in Canada and England.
 (b) the Company's contracts with U. S. Government.

BALANCE SHEET

LIABILITIES

	December 31, 1945	December 31, 1944
Accounts Payable (Purchase Invoices, Pay Rolls and other Accruals not due for payment.)	\$5,524,976.44	\$5,074,140.51
Common Dividend, Payable January 15, 1946	1,886,834.40	1,886,834.40
Reserve for Federal and Foreign Income and Excess Profits Taxes and Renegotiation	19,806,810.31	23,214,683.77
Total Current Liabilities	27,218,621.15	30,175,658.68
Insurance and Contingent Reserve	3,367,529.24	3,370,117.72
Post-War Contingent Reserve	-----	3,181,326.18
Capital Stock, Preferred (Par Value \$100.00—7% Cumulative) Shares authorized 250,000, issued 248,045	24,804,500.00	24,804,500.00
Capital Stock, Common (Par Value \$10.00) Shares authorized 12,000,000, issued 6,289,448	62,894,480.00	62,894,480.00
Earned Surplus	14,173,475.90	9,767,354.44
Total	<u>\$132,458,606.29</u>	<u>\$134,193,437.02</u>

CONSOLIDATED INCOME AND EARNED SURPLUS
YEAR—1945

Net Sales		\$204,995,177.86
Cost of Sales	\$132,785,807.46	
Selling, General and Administrative Expenses	35,487,122.63	
Depreciation	3,456,440.30	
Foreign Exchange Adjustments	243,536.04	
Taxes (other than Federal and Foreign Taxes on income)	4,356,302.30	176,329,208.73
Income from Operations		28,665,969.13
Interest, Rents and Miscellaneous Income		412,889.59
Total		29,078,858.72
Loss on disposal of Fixed Assets	2,126,754.74	
Provision for Federal and Foreign Income and Excess Profits Taxes and Renegotiation (including \$9,965,000.00 Federal Excess Profits Tax)	16,443,656.10	18,570,410.84
Net Earnings for the year		10,508,447.88
Earned Surplus December 31, 1944		9,767,354.44
Transferred from Post-War Contingent Reserve.		3,181,326.18
		23,457,128.50
Preferred Dividends Paid	1,736,315.00	
Common Dividends Paid	5,660,503.20	
Common Dividend, Payable January 15, 1946	1,886,834.40	9,283,652.60
Earned Surplus December 31, 1945		\$14,173,475.90

REPORT OF AUDITORS

To the Stockholders of
NATIONAL BISCUIT COMPANY,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of National Biscuit Company and its subsidiary companies as of December 31, 1945, and the consolidated statement of income and earned surplus for the fiscal year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statement of income and earned surplus present fairly the consolidated position of National Biscuit Company and its subsidiary companies at December 31, 1945, and the consolidated results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Lybrand, Ross Bros. & Montgomery

New York, N. Y.
February 5, 1946.

BOARD OF DIRECTORS

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FRANKLIN D'OLIER

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DUDLEY W. FIGGIS

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PAUL MOORE

ALEXANDER C. NAGLE

LIVINGSTON PLATT

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GEORGE H. COPPERS

Vice Presidents

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FREDERICK F. BRODESSER *Asst. Secretary and Asst. Treasurer*

Controller

Secretary

Treasurer

TRANSFER AGENT

GUARANTY TRUST COMPANY

NEW YORK

REGISTRAR

FIRST NATIONAL BANK

NEW YORK

